

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /097 W
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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 9999
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C O N F I D E N T I A L JAKARTA 3739

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: VISIT OF SOCAL/TEXACO BOARD CHAIRMEN

1. SUMMARY: CALTEX PARENT COMPANY BOARD CHAIRMEN H.J. HAYNES OF SOCAL AND M.F. GRANVILLE OF TEXACO VISITED INDONESIA MARCH 20-23. PURPOSE OF TRIP WAS TO ATTEND RETIREMENT CEREMONIES HONORING CALTEX PACIFIC INDONESIA CHAIRMAN JULIUS TAHIJA. CHAIRMEN DISCUSSED NEED FOR INCENTIVES DURING COURTESY CALL MARCH 21 ON PRESIDENT SUHARTO WHO SEEMED AWARE OF PROBLEM BUT WAS NON-COMMITTAL. END SUMMARY

2. CHAIRMEN OF CALTEX PARENT COMPANIES--SOCAL AND TEXACO--PAID BRIEF VISIT TO JAKARTA MARCH 20-23 FOR PURPOSES HONORING RETIRING CPI CHAIRMAN TAHIJA BUT ALSO IN ATTEMPT ADD SOME IMPETUS TO CALTEX EFFORTS AIMED AT OBTAINING ADDITIONAL OIL INCENTIVES. CALTEX HAS BEEN ATTEMPTING NEGOTIATE SEPARATE PACKAGE OF INCENTIVES SOMEWHAT AKIN TO THOSE OFFERED PRODUCTION-SHARING CONTRACTORS BUT MORE SPECIFICALLY TAILORED TO STIMULATE COMPANY'S SECONDARY RECOVERY PROGRAM.

3. DURING LUNCHEON AT RESIDENCE MARCH 21, I HAD OPPOR-
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TUNITY DISCUSS WITH BOTH CHAIRMEN RESULTS OF THEIR MEETING WITH PRESIDENT SUHARTO. THEY INDICATED PRESIDENT RECEIVED THEM CORDIALLY AND HAD MADE EFFORT TO EXPLAIN INDONESIAN OBJECTIVES DURING RECENT OIL NEGOTIATIONS. CHAIRMEN IN RESPONSE MADE LOW KEY APPEAL ON NEED FOR ADDITIONAL INCENTIVES IF INDONESIA WAS TO CONTINUE DEVELOPMENT NEW SOURCES OF OIL. THEY ALSO

STRESSED FACT THAT INDONESIA HAD TO "COMPETE" WITH OTHER OIL PRODUCING AREAS FOR COMPANIES' SCARCE VENTURE CAPITAL. PRESIDENT SEEMED AWARE OF THIS BUT WAS NON-COMMITTAL, PARTICULARLY ON INCENTIVES ISSUE.

4. VISIT BY CHAIRMEN TO PALACE HAD BEEN PRECEDED BY SECRET MEETING IN TOKYO PREVIOUS WEEK BETWEEN SOCAL/TEXACO NEGOTIATORS BOUCKE AND MCCAL AND PERTAMINA PRESIDENT DIRECTOR HARYONO DURING LATTER'S VISIT TO JAPAN. AT THIS MEETING, HARYONO TOLD COMPANY REPRESENTATIVES MAXIMUM THAT GOI/PERTAMINA PREPARED GIVE CALTX IN TERMS OF INCENTIVES FOR NEW OIL WAS \$.30/BARREL. HARYONO MENTIONED THAT "SOME" IN GOI FELT CALTEX MAKING ENOUGH MONEY AND DID NOT NEED LEVEL OF INCENTIVES GIVEN OTHERS. HE TOLD THEM THAT THEIR REQUEST FOR \$.85/BARREL INCENTIVE WAS TOO HIGH. NO CONCLUSIONS REACHED AND NEGOTIATORS ARE NOW STANDING BY IN HOPES OF RESUMING DISCUSSIONS WITH HARYONO IN JAKARTA. CHIEF EFFORT WILL BE TO NARROW GAP BETWEEN \$.90 AND .30. (BOUCKE AND MCCALL REPORTED THAT PREVIOUS CALTEX INCENTIVE PROPOSALS ON DEEMED YIELD FOR SECONDARY RECOVERY AND SPECIAL 7 1/2 PERCENT INVESTMENT CREDIT WERE BOTH "DEAD".)

5. COMMENTING ON GOI POSITION, BOUCKE AND MCCALL SAID THEY HAD ATTEMPTED TO POINT OUT THAT EVEN WITH INCENTIVES, CALTEX PRODUCTION WOULD NOW SHOW INCREASE. GEOLOGISTS FROM BOTH COMPANIES HAD DONE STUDIES SHOWING THAT WITHOUT ANY ECONOMIC INDUCEMENTS TO UNDERTAKE SECONDARY RECOVERY, PRODUCTION WOULD SOON EXPERIENCE

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SLIPPAGE. ONLY QUESTION WAS HOW FAST THIS WOULD HAPPEN. CALTEX NEGOTIATORS HAD SUBMITTED SPECIAL STUDY DONE BY THIRD PARTY CONSULTANT ON NORTH SEA COMPETITIVENESS WHICH SHOWED ECONOMIC FACTORS THERE ALLOW SUBSTANTIALLY MORE FAVORABLE RATE OF RETURN THAN UNDER INDONESIA'S NEW TERMS.

6. REPLACING TAHIJA IS HAROEN AL-RASJID WHO BECOMES "MANAGING DIRECTOR" FOR P.T. CALTEX PACIFIC INDONESIA. TAHIJA WILL RETAIN AFFILIATION WITH CALTEX AS SORT OF CHAIRMAN EMERITUS. RASJID IS 44 AND WAS MOST RECENTLY DEPUTY MANAGING DIRECTOR OF CALTEX FIELD OPERATIONS AT RUMBAI. HE IS AUSTRALIAN-TRAINED MECHANICAL ENGINEER WHO FIRST JOINED COMPANY IN 1958.

7. COMMENT: WHILE TWO CHAIRMEN LEFT WITHOUT SUCCESSFUL RESOLUTION OF INCENTIVES ISSUE, THEY ARE HOPEFUL THAT PRESIDENT SUHARTO NOW BETTER ACQUAINTED WITH PROBLEM. VISIT WAS ALSO SYMBOLICALLY IMPORTANT IN RE-OPENING

PALACE DOOR TO VISITING OIL EXECUTIVES. END COMMENT.
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Message Attributes

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